

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

| | | ACTION | INFO | DATE | INITIAL |
|----------|-----------|--------|------|------|---------|
| 1 | DCI | | | | |
| 2 | DDCI | | | | |
| 3 | EXDIR | | | | |
| 4 | D/ICS | | | | |
| 5 | DDI | | | | |
| 6 | DDA | | | | |
| 7 | DDO | | | | |
| 8 | DDS&T | | | | |
| 9 | Chm/NIC | | | | |
| 10 | GC | | | | |
| 11 | IG | | | | |
| 12 | Compt | | | | |
| 13 | D/Pers | | | | |
| 14 | D/OLL | | | | |
| 15 | D/PAO | | | | |
| 16 | SA/IA | | | | |
| 17 | AO/DCI | | | | |
| 18 | C/IPD/OIS | | | | |
| 19 | NIO/ECON | | X | | |
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| SUSPENSE | | Date | | | |

Remarks

CC:

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CABINET AFFAIRS STAFFING MEMORANDUM

LOGGED

Date: 11/29/84 Number: ----- Due By: -----

Subject: Cabinet Council on Economic Affairs Minutes:

November 15, 1984

| ALL CABINET MEMBERS | Action | FYI | | Action | FYI |
|---------------------|--------------------------|-------------------------------------|--------------------------|-------------------------------------|-------------------------------------|
| Vice President | <input type="checkbox"/> | <input checked="" type="checkbox"/> | CEA | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| State | <input type="checkbox"/> | <input type="checkbox"/> | CEQ | <input type="checkbox"/> | <input type="checkbox"/> |
| Treasury | <input type="checkbox"/> | <input type="checkbox"/> | OSTP | <input type="checkbox"/> | <input type="checkbox"/> |
| Defense | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| Attorney General | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| Interior | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| Agriculture | <input type="checkbox"/> | <input type="checkbox"/> | Baker | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Commerce | <input type="checkbox"/> | <input type="checkbox"/> | Deaver | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Labor | <input type="checkbox"/> | <input type="checkbox"/> | Darman (For WH Staffing) | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| HHS | <input type="checkbox"/> | <input type="checkbox"/> | McFarlane | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| HUD | <input type="checkbox"/> | <input type="checkbox"/> | Svahn | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Transportation | <input type="checkbox"/> | <input type="checkbox"/> | Chapman | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Energy | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| Education | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| Counsellor | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| OMB | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| CIA | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| UN | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| USTR | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| GSA | <input type="checkbox"/> | <input type="checkbox"/> | Executive Secretary for: | | |
| EPA | <input type="checkbox"/> | <input type="checkbox"/> | CCCT | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| NASA | <input type="checkbox"/> | <input type="checkbox"/> | CCEA | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| OPM | <input type="checkbox"/> | <input type="checkbox"/> | CCFA | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| VA | <input type="checkbox"/> | <input type="checkbox"/> | CCHR | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SBA | <input type="checkbox"/> | <input type="checkbox"/> | CCLP | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| | | | CCMA | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| | | | CCNRE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

REMARKS:

Attached for your information are the minutes of the November 15, 1984 CCEA Planning Meeting.

RETURN TO:

☐ Craig L. Fuller

Assistant to the President
for Cabinet Affairs

456-2823 (White House)

☐ Don Clarey

☒ Tom Gibson

☐ Larry Herbolzheimer

Associate Director

Office of Cabinet Affairs



MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 15, 1984
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Block, Baldrige, Ford, Niskanen, Verstandig, Porter, Wright, Wallis, Burnley, Healey, Cicconi, Gibson, Knapp, Platt, and Li, and Ms. Risque.

1. Treasury Studies of Federal-State-Local Fiscal Relations

Mr. Healey presented a paper providing background on the Treasury studies of Federal-State-Local fiscal relations and the timetable for their completion. The 1983 legislation reauthorizing the Revenue Sharing program directed the Secretary of the Treasury to conduct these studies, which are designed to assist upcoming debates on grant and tax policies, as well as congressional consideration of the Revenue Sharing program when it expires at the end of FY 1986.

The legislation mandated research in eight primary areas:

1. Evaluation of the formulas used to allocate Revenue Sharing funds;
2. Assessment of alternative measures of fiscal capacity and effort to be used in the formulas of the Revenue Sharing program and other major Federal grant programs;
3. Analysis of the long-term capacities of the Federal, state, and local levels of government to finance their respective service responsibilities;
4. Evaluation of options for turning responsibilities and resources from the Federal Government to state and local governments;
5. Analysis of the roles, if any, of each level of government in coping with the consequences of the cyclical behavior of the economy for state-local finance;
6. Analysis of the responsiveness of the distribution of Federal aid to the fiscal capacities of state-local governments;

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7. Evaluation of the technical and administrative aspects of Federal grant formulas, with an eye to the efficiency of the allocation of grant funds; and
8. Analysis of the impacts on state and local governments of possible modification of the Internal Revenue Code concerning the deductibility of state and local taxes and the tax-exempt status of interest payments on state-local securities.

A draft of the report is scheduled for circulation to other Federal agencies on February 1 and to members of the Advisory group of state and local organizations on March 1. The legislation requires the Secretary of the Treasury to submit the report to the President and the Congress by June 30, 1985.

The Department of the Treasury is consulting with many individuals and groups in preparing the report. These include one group at the governor level, another working group comprising representatives from a variety of state and local organizations, and a group of technical advisors.

The Council discussed the consultation process for the report. The Council emphasized the importance of assuring that the concerns of the state and local governments are taken fully into account.

State and local officials have expressed significant concern about the impact of these studies on consideration of the Revenue Sharing program and potential changes in the Federal tax treatment of state and local taxes and securities. Council members also discussed the origins of the Revenue Sharing program and how current Federal categorical grant programs may promote inefficient spending at the state and local levels.

2. Leveraged Buyouts

Mr. Healey presented a paper reviewing leveraged buyouts. The recent concern about leveraged buyouts reflects the generic concern about the increasing debt leverage in the U.S. economy, which may result in increased vulnerability to interest rate changes.

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The use of leveraged buyouts has escalated in recent years for four major reasons: 1) the availability of funding from financial institutions; 2) the surge in merger and acquisition activity; 3) changes in tax incentives, for example, several provisions in the Tax Reform Act of 1984 with respect to Employee Stock Ownership Plans (ESOPs); and 4) greater publicity, in particular, the well-publicized success of leveraged buyouts such as Gibson Greeting Cards.

Mr. Healey concluded that, on balance, buyouts and mergers benefit the economy because they help allocate resources toward their most efficient uses.

The Council discussed the increased debt leverage resulting from these transactions. It noted that the Federal Government has created artificial incentives in the tax code that may encourage mergers and that the Administration should review these tax provisions carefully.